

ONTARIO ENERGY CORPORATION

Annual Report 1988

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THE YEAR'S HIGHLIGHTS

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PRESIDENT'S REPORT

In 1988, the Corporation made further progress in fulfilling the divestment mandate assigned to it by the Government of Ontario.

In July, it completed the sale of Onexco Oil & Gas Ltd.'s two-thirds interest in Trillium Exploration Corporation's frontier oil and gas exploration assets to Mosbacher Energy Corporation. With the closing of this transaction, the Corporation completed the disposal of all its energy assets except for its 25 per cent equity interest in Suncor Inc. Subsequent to year end, the Corporation has taken steps to rationalize its structure. It has initiated the process to dissolve its subsidiary corporations of Onexco Oil & Gas Ltd., Ontario Energy Ventures Limited and Ontario Energy Resources Ltd.

The Corporation's revenue in 1988 amounted to \$4.4 million while expenses totalled \$500 thousand, resulting in income from operations of \$3.9 million. In 1988, Suncor Inc. reported a loss of \$49 million. The Corporation accounts for its investment in Suncor Inc. using the equity method and this loss is the major factor explaining the \$8.6 million loss reported by the Corporation.

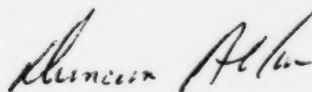
The Corporation realized \$25.4 million from the sale of investments in 1988. The Corporation paid a special dividend of \$20 million to its Government shareholder in 1988. The proceeds from the sale of assets together with its dividend and interest income left the Corporation in a healthy cash position at year end. The Board of Directors voted a further dividend of \$28 million to its Government shareholder in January 1989.

Since the Corporation was assigned its prudent disposition mandate in 1986, it has achieved the following results:

- o the Ontario oil and gas assets have been sold;
- o the Alberta conventional oil and gas holdings, plus marketable shares, have been sold;
- o the interests in frontier oil and gas exploration assets have been sold;
- o the venture capital investments have been sold, wound-up or liquidated, except when legal or tax implications have impinged.

This has been achieved with a small number of directors, officers and staff drawn from government. I would like to commend this core of people associated with the Corporation for their tenacity and dedication which has contributed to the results and performance achieved.

Respectfully submitted on behalf of the Board:



Duncan M. Allan
President and Chief Executive Officer

BOARD OF DIRECTORS

Duncan M. Allan
Special Advisor to the Premier
Waterfront Development
Province of Ontario

Edward Ciemiega
Director
Legal Services Branch
Ministry of Energy

George A. Dominy
Manager, Oil & Gas Section
Ministry of Energy

Daniel J. Gagnier
Deputy Minister
Ministry of Intergovernmental Affairs

Donald S. McColl
Assistant Deputy Minister
Ministry of Treasury and Economics

Robert A. Simpson
Deputy Minister
Ministry of Financial Institutions

OFFICERS

Duncan M. Allan
Chairman
President and Chief Executive Officer

Victor A. Bailey
Treasurer

Robert Law
Secretary

AUDITORS

Deloitte Haskins & Sells

As at June 26, 1989.

FINANCIAL STATEMENTS

PREPARATION AND REVIEW OF THE FINANCIAL STATEMENTS

The financial statements have been prepared by management in accordance with generally accepted accounting principles. Management is also responsible for the other information in the annual report, which is consistent with that contained in the financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through an Audit Committee of the Board, which is composed of directors who are not employees of the Corporation. The Audit Committee meets with management and the external auditors at least twice each year to satisfy itself that management's responsibilities are being properly discharged and to review annually the financial statements.

The external auditors, Deloitte Haskins & Sells, conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the Corporation's financial statements. The auditors' examination includes a review and evaluation of the Corporation's system of internal control. Appropriate tests and other procedures are conducted to provide reasonable assurance that the financial statements are presented fairly. The external auditors have full and free access to the Audit Committee of the Board. The Provincial Auditor has access and reviews from time to time the working paper files of the external auditors.

AUDITORS' REPORT

TO THE SHAREHOLDER OF ONTARIO ENERGY CORPORATION

We have examined the consolidated balance sheet of Ontario Energy Corporation as at December 31, 1988 and the consolidated statements of loss and deficit and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells

Chartered Accountants
Toronto, Canada
June 5, 1989

**CONSOLIDATED STATEMENT
OF LOSS AND
DEFICIT**

**Year ended
December 31, 1988**

REVENUE

Production
Interest
Gain on Disposal of Investments

1988	1987
(000's)	
\$ -	\$ 1,389
2,217	1,356
2,200	223
<u>4,417</u>	<u>2,968</u>

EXPENSES

General and administrative
Production

500	656
-	1,023
<u>500</u>	<u>1,679</u>

INCOME FROM OPERATIONS
EQUITY IN (LOSS) INCOME OF
SUNCOR INC. (Note 2)
(LOSS) NET INCOME

3,917	1,289
(12,500)	11,750
<u>(8,583)</u>	<u>13,039</u>

DIVIDEND

(20,000)	-
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DEFICIT, BEGINNING OF YEAR

<u>(102,170)</u>	<u>(115,209)</u>
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DEFICIT, END OF YEAR

<u><u>\$(130,753)</u></u>	<u><u>\$(102,170)</u></u>
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**CONSOLIDATED
BALANCE SHEET
December 31, 1988**

ASSETS

CURRENT ASSETS

Cash and short-term investments
INVESTMENT IN SUNCOR INC. (Note 2)
OTHER INVESTMENTS

\$ 37,435	\$ 26,022
254,594	272,419
-	22,332
<u>292,029</u>	<u>320,773</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable & accrued charges

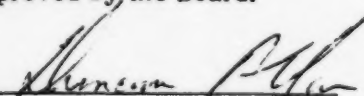
\$ 67	\$ 228
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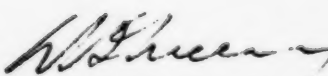
SHAREHOLDER'S EQUITY

SHARE CAPITAL (Note 3)
CONTRIBUTED SURPLUS
DEFICIT

97,715	97,715
325,000	325,000
(130,753)	(102,170)
<u>291,962</u>	<u>320,545</u>
<u><u>\$ 292,029</u></u>	<u><u>\$ 320,773</u></u>

Approved by the Board:


Duncan M. Allan, Director


Donald S. McColl, Director

**CONSOLIDATED STATEMENT
OF CHANGES IN
FINANCIAL POSITION**

**Year ended
December 31, 1988**

**OPERATING ACTIVITIES
(Loss) Net Income**

Items not affecting cash flow

Depreciation and depletion

Equity in income of Suncor Inc.

Gain on disposal of investments

Other

Proceeds on sale of investments

Suncor Inc. dividends

Investments

Changes in operating working capital

Accounts receivable

Accounts payable & accrued charges

Cash provided by operating activities

DIVIDENDS PAID

SHORT-TERM BORROWINGS

INCREASE IN CASH

CASH AND SHORT-TERM INVESTMENTS,
BEGINNING OF YEAR

CASH AND SHORT-TERM INVESTMENTS,
END OF YEAR

1988	1987
(000's)	
\$ (8,583)	13,039
-	736
12,500	(11,750)
(2,200)	(223)
-	3
1,717	1,805
25,400	12,056
5,325	2,662
(868)	(2,586)
31,574	13,937
-	851
(161)	(225)
31,413	14,563
(20,000)	-
-	(1,081)
11,413	13,482
26,022	12,540
\$ 37,435	\$ 26,022

**NOTES TO THE
CONSOLIDATED
FINANCIAL
STATEMENTS
December 31, 1988**

1. SIGNIFICANT ACCOUNTING POLICIES

The Ontario Energy Corporation has invested in, or otherwise participated in, energy projects with a view to enhancing the availability of energy in Ontario. It has determined to seek prudent disposal of its investments.

These financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following policies:

Basis of financial statement presentation

The consolidated financial statements include the accounts of the Ontario Energy Corporation and its subsidiaries.

The investment in Suncor Inc. and certain other investments are accounted for using the equity method.

Income taxes

The Corporation and its wholly-owned direct subsidiaries and their wholly-owned direct subsidiaries are not subject to income tax so long as not less than 90 per cent of the outstanding shares of the Corporation are held directly by the Province of Ontario. All of the Corporation's outstanding shares are presently held by the Province of Ontario. Onexco Oil & Gas Ltd., which is a wholly-owned indirect subsidiary of the Corporation, is subject to income taxes.

2. INVESTMENTS

Suncor Inc.

The investment in 25% of the shares of Suncor Inc. is accounted for using the equity method.

Summarized financial information of Suncor Inc. as at December 31 is as follows:

	1988	1987
	(in millions)	(in millions)
Working capital	\$ 32	\$ 37
Total assets	\$ 2,023	\$ 2,080
Shareholders' equity		
Preferred shares	\$ 7	\$ 7
Common shares and retained earnings	1,016	1,087
	<u>\$ 1,023</u>	<u>\$ 1,094</u>
Operations		
Revenue	\$ 1,345	\$ 1,370
(Loss) Net income	\$ (49)	\$ 48
Cash dividends on common shares	\$ 21	\$ 10
Stock dividends on common shares	-	11
	<u>\$ 21</u>	<u>\$ 21</u>

2. INVESTMENTS (cont'd)

The company has settled the action regarding overriding on production from certain oil sands leases. The financial impact, which relates to periods prior to 1987, has been reflected retroactively in the periods affected, with the result that opening retained earnings for 1987 as previously reported have been decreased by \$3 million after income tax credits of \$2 million.

3. SHARE CAPITAL

Share capital - December 31, 1988 and 1987

Authorized

An unlimited number of common shares
20,000,000 non-voting special shares

Issued

2,000,000 common shares \$ 100,000

Less

45,708 common shares held in
Treasury, at cost

2,285

\$ 97,715

4. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

5. SUBSEQUENT DIVIDEND

A dividend of \$28,000,000 was declared payable in January 1989.